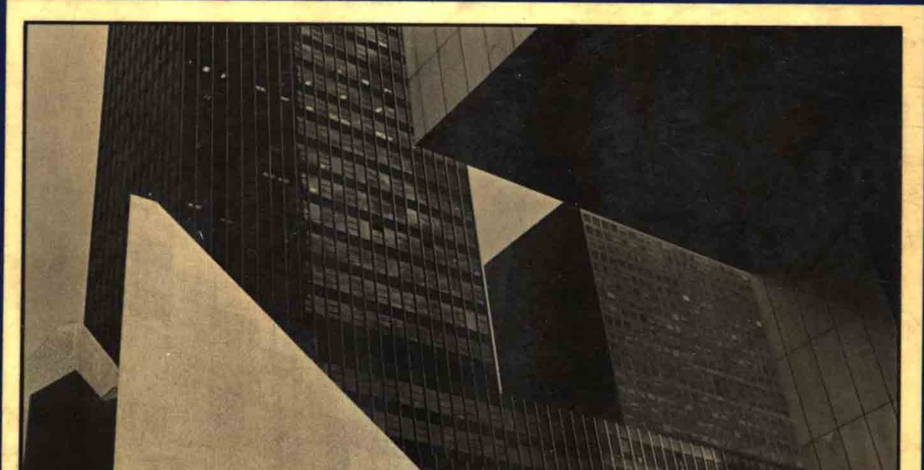
Business Issues Today

ALTERNATIVE PERSPECTIVES



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BUSINESS ISSUES TODAY

Alternative Perspectives

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For James and Sarah and their generation,
who will be making the difficult choices very soon

Preface

Over the past half dozen years, the number of students interested in business studies in American universities and colleges has exploded. At most of these institutions, business is the largest and fastest-growing undergraduate major. The growth of interest in business doubtless reflects the employment realities in an economy that has grown very slowly over the past decade and the understandable concern of students for improving their job prospects. Of course, it may also reflect a deeper and more genuine interest in business subjects among contemporary college students than existed a decade or more ago. Whatever the reason, more college students today want to learn about business than at any time in the past.

Ironically, the business institutions that these students choose to study so intently are undergoing searching reexamination and criticism. American business enterprise is in the midst of revolutionary change. Over the past ten years of economic contraction, old business values and practices have come under attack, even from business itself. One need only turn to the business and financial pages of newspapers or news weeklies to see the extent of this debate. How can Americans raise productivity? What can they learn from Japanese styles of management? Are mergers getting out of hand? What is the proper role for government in a business economy? Does the United States need an "industrial policy"? Will "high tech" replace the "smokestack" industrial foundations of the American economy? Such questions are not matters of idle curiosity but reflect the soul searching now going on in business as it attempts to come to terms with a whole new agenda of management, marketing, and financial problems.

Regrettably, many of the business textbooks used by students fail to examine in much detail these current debates over key business-policy issues. Instead, most texts follow a tried and safe approach of neutrally surveying business organizations, rarely commenting on the changing trends in philosophy and practice. In my own classes, I found that even the best business texts sidestepped or ignored most of the issues that my students were reading about in the paper or hearing about on television. More important, the average text was not preparing students for important real-world business situations in which they would be involved after college.

My response is this collection of readings on thirteen contemporary business issues. Its objective is to bring the current debates over business policy into the introduction-to-business or introduction-to-management classrooms. To keep the discussion lively and to confront students with the diversified and sometimes contradictory points of view that flourish in the business community, I have tried to select readings that exemplify controversy and division of opinion. I approach each issue with the object of helping students evaluate and choose from among differing points of view. The readings and the end-of-issue discussion questions are meant to show beginning students that business is not the monolithic and unchanging institution that the textbooks often present and to invite them to develop their own philosophies or perspectives on crucial business-policy matters. I do not advocate a particular point of view here. Rather I present representative points of view from which the reader can make his or her own choice. I hope that such an exercise in studying business-policy alternatives will heighten students' awareness of the hard choices they will soon face in their own professional lives.

Accompanying this volume is a carefully prepared Instructor's Manual designed to aid instructors in using the readings in the classroom. The manual includes a chart correlating the issues covered in this book with eight leading introduction-to-business texts.

I would like to thank the following reviewers for their helpful suggestions as the book took final shape: G. Vaughn Johnson of the University of Nebraska, Emerson N. Milligram of Carlow College, Lewis M. Stewart of Georgia Southern College, Noel G. Powell of West Georgia College, Allen D. Mason of Stephens College, Walter W. Perlick of California Polytechnic State University, V. Wayne Klemin of Central Washington University, Barry L. Van Hook of Arizona State University, Dr. Ella W. Van Fleet of Texas A & M University, Terry Marion of Missouri Southern State College, Charles W. Schilling, Ph.D., of the University of Wisconsin-Platteville, Jim Hackett of Southern California College, and George M. Wenstrup. Special thanks are due to Michael Weber of St. Martin's Press for having faith in the project and to Emily Berleth and Ron Aldridge for putting it in its final shape. Charlize Fazio again served bravely as my typist. Fred Puritz provided outstanding aid and support in preparing the Instructor's Manual and in offering critical advice on the text.

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PART 1

INTRODUCTION

The Contours of Change in American Business Development

Throughout most of American history—with the possible exceptions of the Depression years of the 1930s and the protest years of the 1960s—business institutions, business values, and business leaders have enjoyed a high popular regard. Comparatively few Americans have ever disagreed with President Calvin Coolidge's observation that the "business of America is business." Few could deny that over the long haul the business system has worked reasonably well, delivering the goods, the jobs, and the standard of living acceptable to the vast majority of the population. Moreover, the traditional American virtues of independence and hard work have seemed safely embodied in the entrepreneurial activities and instincts of a business society. However, by the 1980s the American business system seems to have entered a new and uncomfortable period.

Recent Reexaminations of the Business System

For more than a decade now, the American economy has performed badly. The nation has experienced four major recessions, a prolonged and painful episode of rising prices, rising levels of unemployment, steady increases in business and personal bankruptcies, and a general decline in both the growth of our national output and the efficiency with which we turn out goods and services. Since business *is* the economy, the economic decline has raised a number of serious questions about the future of American private enterprise.

As a result, a growing literature has appeared over the last few years, analyzing the problems of contemporary business and offering a wide range of suggested solutions. Revisionist critics from within and without business have directed their inquiry and criticism into every area of business's functional activities: research and production, finance, marketing, and, most significantly, management practices in general. To the casual observer, many of these critiques may seem unduly harsh and the suggested solutions nothing short of revolutionary. More surprising is the fact that the harshest critics and the most "revolutionary" proposals come not from the small band of political radicals who have always opposed the capitalist production-for-profit system; they come from the ranks of business enterprise.

Almost every aspect of business behavior has been held up for close scrutiny. Business has been criticized for being too narrowly and immediately profit directed, thereby failing to invest in long-term product development and to lay out long-term operational strategies. Financing and accounting techniques, with their apparent bias toward making stockholders happy through creative but dangerous financial methods, also have drawn fire. Personnel managers have been attacked for their failure to motivate workers and their too-frequent dependence upon wages alone as an inspirational device to spur workers' output. Along with their failure to plan for the long run, upper management has been charged with evading necessary research and development commitments and failing to use the newest and best production technology. Meanwhile, in what has become a familiar refrain, the Japanese, our strongest competitors, have been cited constantly as a model that American enterprise might pattern itself after in the development of new industrial and business policies.

As we shall see in the following readings, the list of charges against recent business practices and of recommendations for change is long and growing. Nor is there much unanimity in the complaints and the proposed cures. At first glance, the entire situation seems to be confusing and contradictory: businesspeople attacking accepted business practices and talking about "revolutionary change." However, the contradictions disappear if we take a longer, historical view of American enterprise. In fact, *change*, not permanence, and *adaptation*, not mindless opposition to change, have always been dominant characteristics in the development of the American business system. Indeed, American business enterprise has always been in a kind of "permanent revolution." To understand this point and to put into proper focus our examination of the current debate over the directions and content of modern business policy, a short detour through American business history is in order.

The Permanent Revolution

While past practices and conditions may not be very useful in choosing among future strategies, a longer view of American business institutions and operations does provide two important insights: First, it clearly points up the evolutionary and changing character of business as an institution, thus putting the shrillness of much of the current debate in a proper and a somewhat calming perspective. No less than in our own era have past shifts in the direction and organization of business enterprise seemed about to destroy all that was "good and desirable." Second, a trip through American business history allows for some understanding of how technical, social, and economic forces make change inevitable.

An excursion into the past necessarily leads to the arbitrary identification of certain landmarks and epochs in business development. Four watershed periods have been selected for study: (1) the era of merchant capitalists, colonial times up to 1860; (2) the rise of big business, 1860–1900; (3) the development of the modern corporation, 1900–1929; and (4) the maturing of a mixed enterprise system, 1929 to the present. The reader is encouraged to examine each of these eras with several questions in mind: What were the dominant characteristics of business institutions and behavior? What forces emerged that forced change upon the business environment? What adaptations actually took place, and how successful were they?

The Era of Merchant Capitalists: Colonial Times up to 1860

To appreciate the significance and dimensions of change in American business institutions, we need only contrast the extent and complexity of modern enterprise with the crude and underdeveloped business system that existed in colonial times. The wealth of productive power now taken for granted did not exist for the early American colonists. The land and climate were hostile, the native population was unfriendly (and for good reason), and epidemics frequently decimated settlements. Although there were a few cities during the colonial period, Americans were primarily farmers, farm workers, or slaves tied to farming. Business activities already common in England or on the continent were comparatively slow to develop.

The official position of the British administrators of the colonies was to pursue the policies of *mercantilism*, which subordinated the colonies to the needs of the mother country. Colonial production efforts were directed to raising crops or providing raw materials that could be exported directly to England. Meanwhile, colonial manufacturing was to be kept to a minimum. Finished goods, except for a few farm tools made by local blacksmiths, had to be purchased from British suppliers. Trade among the colonies was officially discouraged. Under mercantilism, the colonies were both a captive market for British merchants and a supplier of cheap raw materials.

Small wonder, then, that such arrangements eventually produced the stirrings of revolution and the demand for separation from England. The small merchants and the frontier farmers of the Northeast and the plantation operators of the South all found the exploitative and restrictive policies of mercantilism outrageous. It was not purely a matter of "taxation without representation" that produced the war of independence; it was a common desire to sweep aside all external controls.

Fracturing political and economic connections with England did not immediately stimulate business growth. Although the new nation was rich in land and raw materials, labor was in short supply. In 1790 the population stood at 3.9 million, about 90 percent working in agricultural pursuits (20 percent of the population were southern plantation slaves). Capital was also in critically short supply. With the combined shortage of labor and capital, the growth of business enterprise, especially manufacturing establishments, was very slow. There was little risk capital and there were few urban workers available for industrial purposes. Independent artisans and home manufacturing supplied the bulk of finished product needs.

THE EARLY MERCHANT CAPITALISTS

What businesses did exist were usually commercial or financial enterprises. All were small and invariably organized as partnerships or proprietorships. The early merchant proprietors were not business specialists. They doubled in shipping, warehousing, retailing and wholesaling, insurance, and banking—apparently no single activity produced sufficient profit or was demanding enough to absorb all of the entrepreneur's time.

Business administration simply did not exist as we know it today. Indeed, business was carried on in a most haphazard way. Usually no administrative hierarchy existed, with accountants, clerks, and apprentices reporting directly to the owner. Business was rarely brisk, even on good days, and most employees worked at their own pace. The proprietors themselves were not very hard drivers. Even the very successful John Jacob Astor (one of our first millionaires) was rarely in the office before nine in the morning or after two in the afternoon. In their private lives the more successful merchants tried to copy the lifestyle of English aristocrats, spending much of their day in leisure—reading, writing, and dining.

Business operated without benefit of any of the specialists common today. There were no management consultants, no public relations experts, no public accountants, no personnel specialists, and so on. Insurance companies operated without actuaries to calculate probable losses. Banks, which did not really exist until the later years of the eighteenth century, usually maintained only single-entry bookkeeping and frequently were guilty of incredible mathematical errors in keeping their accounts.

However, for all these shortcomings the merchant capitalist served an important task. Ever so slowly they did accumulate profits that in turn provided the basis for manufacturing development. Early industrial entrepreneurs, such as Samuel Slater in textiles, the Brown brothers in candles, and Samuel Colt in firearms, obtained their *start-up capital* from merchant capitalist investors.

THE IMPACT OF INVENTIONS

Complementing the accumulation of capital in the early nineteenth century were a number of important inventions. Eli Whitney's cotton gin created an industry by making it possible for the first time to clean cotton faster than it could be picked. Whitney also developed the technique of producing standardized and interchangeable parts in the manufacture of firearms, a practice that quickly spread to most new machine industries and spelled ruin to the craftsmen who made each machine part with tender loving care but at great expense. Francis Lowell introduced the power loom to spin yarn. Robert Fulton applied the steam engine to water transportation. Before the Civil War Elias Howe had invented the sewing machine, Samuel Morse had introduced the telegraph, and Cyrus McCormick had perfected a mechanical reaper to replace the hand cutting of grain crops. Invention produced new invention. Between 1790 and 1811 the U.S. Patent Office averaged seventy-seven inventions annually. Between 1850 and 1860 it averaged more than 2,500 a year.

THE BEGINNINGS OF THE FACTORY SYSTEM

The flood of inventions and the increased availability of capital, however, did not produce a manufacturing society overnight. Home production of such goods as clothes, foodstuffs, and many tools continued. Per capita income was not much over $100 per year, and consumer demand for goods was of necessity quite low.

Nevertheless, the factory system did take root. The model for all that was to come later sprang up in the 1830s and 1840s in the Connecticut River Valley. Using the water power of the river to operate the looms and spinning machines, a crude assembly line process was developed. Work was specialized and divided among specific tasks on a continuous production basis. Labor, still a productive factor in short supply in the United States, was recruited from the surrounding farming areas. Often forgotten is the fact that the earliest industrial workers were women. The entrepreneurs enticed the daughters of New England farmers to the mill towns with promises of clean working conditions and the provision of reading circles and other "intellectual" pursuits after their work hours. Meanwhile, their virtue was to be protected by "housemothers" in company-operated boarding houses. The girls came by the thousands. It was doubtless an exciting change from the boredom of farm life where they worked and waited (hopefully) until marriage provided an escape from home. Their fathers were probably equally enthusiastic. Daughters were not highly prized among offspring, and the absence of another mouth at the table was desirable. The new girls usually worked a few years, saved a modest dowry, and left with better marriage prospects. From a management viewpoint the high turnover rate was not a problem. Skills were quickly learned, and enthusiastic fifteen-to-twenty-year-olds were highly productive workers.

Although production organization has matured and become vastly more complex since the 1840s, the key concepts of continuous production and division of labor have endured since the first factory models of